

MT. MORRIS CONSOLIDATED SCHOOLS

MT. MORRIS, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 18, 2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Mt. Morris Consolidated Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mt. Morris Consolidated Schools, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Mt. Morris Consolidated Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Mt. Morris Consolidated Schools as of June 30, 2004, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated August 18, 2004 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VII and 17 are not required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Mt. Morris Consolidated Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.

LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Mt. Morris Consolidated Schools, a K-12 school District located in Genesee County, Michigan, is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Mt. Morris Consolidated Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004.

Generally Accepted Accounting Principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

District Wide Financial Statements: (Continued)

These two statements report the Mt. Morris Consolidated Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreased in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2004 and 2003.

NET ASSETS SUMMARY

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets	\$8,344,008	\$7,825,006
Non-Current Assets	<u>2,496,159</u>	<u>2,595,818</u>
<u>TOTAL ASSETS</u>	<u>\$10,840,167</u>	<u>\$10,420,824</u>
<u>LIABILITIES</u>		
Current Liabilities	\$3,309,456	\$3,151,357
Long-Term Liabilities	<u>1,384,791</u>	<u>1,470,720</u>
Total Liabilities	\$4,694,247	\$4,622,077
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	2,137,874	2,237,533
Unrestricted	<u>4,008,046</u>	<u>3,561,214</u>
Total Net Assets	<u>\$6,145,920</u>	<u>\$5,798,747</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$10,840,167</u>	<u>\$10,420,824</u>

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2004 and 2003, the District wide results of operations were:

	<u>2004</u>	<u>2003</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$1,548,918	\$1,482,749
State of Michigan Unrestricted Foundation Aid	20,922,976	19,459,483
Other General Revenues	<u>497,227</u>	<u>262,665</u>
Total General Revenues	\$22,969,121	\$21,204,897
<u>Operating Grants:</u>		
Federal	2,278,703	2,429,440
State of Michigan	2,590,314	2,795,912
Other Grants	<u>306,660</u>	<u>309,347</u>
Total Operating Grants	\$5,175,677	\$5,534,699
<u>Charges for Services:</u>		
Food Service	304,848	316,821
Athletics	42,163	49,811
Other Charges for Services	<u>188,235</u>	<u>565,499</u>
Total Charges for Services	\$535,246	\$932,131
Total Revenues	\$28,680,044	\$27,671,727
<u>EXPENSES</u>		
Instruction & Instructional Support	16,766,478	15,818,876
Support Services	10,142,067	9,808,793
Community Services	25,507	25,036
Food Service	865,725	790,172
Athletics	403,784	390,590
Non-Educational Activities	19,232	19,247
Interest on Long-Term Debt	0	0
Depreciation	<u>110,078</u>	<u>113,510</u>
Total Expenses	\$28,332,871	\$26,966,224
<u>INCREASE IN NET ASSETS</u>	\$347,173	\$705,503
<u>BEGINNING NET ASSETS</u>	<u>5,798,747</u>	<u>5,093,244</u>
<u>ENDING NET ASSETS</u>	<u><u>\$6,145,920</u></u>	<u><u>\$5,798,747</u></u>

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2004, the District's Total Net Assets increased by \$347,173 to a total of \$6,145,920. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) decreased by \$99,659 during the year due to depreciation exceeding purchases of new capital assets and principal payments on related debt. The districts Unrestricted Net Assets increased by \$446,832 during the year. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall revenues exceeded its expenditures for the year by \$347,173. The total revenues increased by \$1,008,317 or 4% over last years amounts. The major changes were an increase in state aid as a result of additional students. Expenditures increased by \$1,366,647 or 5% over last year. The major changes were increases in wages and fringe benefits.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund increased by \$391,590 during the year with the increase coming primarily in cash. Revenues for the year increased by \$983,260, primarily from increases in state aid. The increases in state aid are derived from a combination of alternative education programs where enrollment figures increased from 245 FTE from September 2002 to September 2003. A second source of revenue increase was due to the sale of a second home constructed by the district's building trades class. Also impacting the district's general fund were two areas experiencing significant funding reductions. The first, adult education received significant reductions in levels of state funding. Secondly, the district is heavily subsidized with grant "at risk" and categorical funding sources. Due to significant changes in funding from year to year in these areas, a decrease in revenues of \$340,134 was realized by the district.

Expenditures and other financing uses increased by \$1,317,413, primarily from increases in wages, fringe benefits, and utility costs. Due to the increased enrollment in alternative education programs, a significant increase in operational and discretionary budgets was experienced in 2003-04. Costs related to the second building trades home also increased the district's expenses. In addition, an early retirement incentive was offered to instructional staff costing \$195,000. Finally, the district spent \$180,000 replacing a 20 year old phone system, repairing roofs, parking lots, maintenance vehicles and elementary school fire alarms. Enrollment is expected to remain stable for the 2004-2005 school year.

The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)

The State of Michigan aid, unrestricted, is determined with the following variables:

- a. State of Michigan State Aid Act per student foundation allowance
- b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count
- c. The District's non-homestead tax levy

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

2. Per Student, Foundation Allowance:

Annually, the State of Michigan establishes the per student foundation allowance. The Mt. Morris Consolidated Schools foundation allowance was \$6,700 per student for the 2003-2004 school year, the same as the prior year. The foundation allowance was decreased by \$74 per student from \$6,700 to \$6,626 as the result of an executive order by the governor.

3. Student Enrollment:

The District's student enrollment for the fall count of 2003-2004 was 3,495.82. The increase in enrollment is caused by the increase in the alternative education and auxiliary programs. While the K-12 enrollment continues to decline approximately 40 students per year, the alternative education program, grades 9-12, continues to increase each year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 18 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2003-2004 fiscal year was \$1,548,918. An increase of \$66,169 from the prior year.

Special Revenue Funds

The districts special revenue funds provide food service and athletic opportunities to students. During the year the fund balances decreased by \$30,687. Food service fund revenue increased by \$31,768, primarily from increases in federal reimbursements. Food service expenditures increased by approximately \$75,553, primarily from increases in wages, fringe benefits, and food costs.

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

Fiscal Year	Original Budget	Final Budget	Actual	Variance Original	Variance Actual
				& Final Budget %	& Final Budget %
Revenue	\$26,278,559	\$28,019,136	\$27,793,802	(6.21)	(0.80)
Expenditures	26,410,855	28,012,516	27,402,212	(5.72)	2.18
<u>TOTAL</u>	<u>(\$132,296)</u>	<u>\$6,620</u>	<u>\$391,590</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Mt. Morris Consolidated Schools amends its budget during the school year. The June, 2004 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget.

MT. MORRIS CONSOLIDATED SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	Principal Balance 7-01-03	Increases 6-30-04	Principal Payments 6-30-04	Principal Balance 6-30-04
Durant Bonds	\$358,285	\$0	\$0	\$358,285
Sick & Terminal Leave Pay	1,112,435	0	85,929	1,026,506
<u>Total Long-Term Obligations</u>	<u>\$1,470,720</u>	<u>\$0</u>	<u>\$85,929</u>	<u>\$1,384,791</u>

B. Net Investment in Capital Assets

The district's net investment in capital assets decreased by \$(99,659) during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
Capital Assets	\$9,193,414	\$133,431	\$52,801	\$9,274,044
Less: Accumulated Depreciation	(6,597,596)	(233,090)	(52,801)	(6,777,885)
<u>Net Investment Capital Outlay</u>	<u>\$2,595,818</u>	<u>(\$99,659)</u>	<u>\$0</u>	<u>\$2,496,159</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Mt. Morris Consolidated Schools.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

	Governmental Activities	
	2004	2003
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$3,637,300	\$2,982,971
Property Taxes Receivable	95	126
Accounts Receivable	17,940	184,835
Due from Other Governmental Units	4,606,979	4,480,096
Inventory	208	132,770
Prepaid Expenses	81,486	44,208
Total Current Assets	\$8,344,008	\$7,825,006
<u>NON-CURRENT ASSETS</u>		
Capital Assets	9,274,044	9,193,414
Less: Accumulated Depreciation	(6,777,885)	(6,597,596)
Total Noncurrent Assets	\$2,496,159	\$2,595,818
<u>TOTAL ASSETS</u>	\$10,840,167	\$10,420,824
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	6,681	120,260
State Aid Anticipation Note Payable	1,518,613	1,527,760
Due to Other Governmental Units	0	347
Accrued Expenses	798,203	539,783
Salaries Payable	867,866	871,966
Deferred Revenue	118,093	91,241
Current Portion of Long-Term Obligations	0	0
Total Current Liabilities	\$3,309,456	\$3,151,357
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	1,384,791	1,470,720
<u>TOTAL LIABILITIES</u>	\$4,694,247	\$4,622,077
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	2,137,874	2,237,533
Unrestricted	4,008,046	3,561,214
<u>TOTAL NET ASSETS</u>	\$6,145,920	\$5,798,747

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENTS OF ACTIVITIES
JUNE 30, 2004 AND 2003

FUNCTIONS/PROGRAMS	2004			2003
	Expenses	Charges For Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue & Change in Net Assets
Governmental Activities:				Net (Expense) Revenue & Change in Net Assets
Instruction	\$16,766,478	\$0	\$4,478,135	(\$12,288,343)
Support Services	10,142,067	188,235	167,486	(9,197,591)
Community Services	25,507	0	0	(25,036)
Food Service	865,725	304,848	530,056	12,964
Athletics	403,784	42,163	0	(340,779)
Non-Education Activities	19,232	0	0	(19,247)
Interest - Long-Term Obligations	0	0	0	0
Depreciation - Unallocated	110,078	0	0	(113,510)
TOTALS	\$28,332,871	\$535,246	\$5,175,677	(\$22,621,948)
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				1,548,918
State Aid				20,922,976
Grants and Contributions Not Restricted to				
Specific Programs				59,346
Investment Earnings				20,518
Miscellaneous				417,363
Total General Revenues and Transfers				\$22,969,121
Change in Net Assets				\$347,173
Net Assets - Beginning - As Restated				5,798,747
Net Assets - Ending				\$6,145,920

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$3,485,365	\$151,935	\$3,637,300
Property Taxes Receivable	95	0	95
Accounts Receivable	17,379	561	17,940
Due from Other Governmental Units	4,601,046	5,933	4,606,979
Inventory	0	208	208
Prepaid Expenses	79,716	1,770	81,486
<u>TOTAL ASSETS</u>	<u>\$8,183,601</u>	<u>\$160,407</u>	<u>\$8,344,008</u>
<u>LIABILITIES</u>			
Accounts Payable	\$3,460	\$3,221	\$6,681
State Aid Anticipation Note Payable	1,518,613	0	1,518,613
Accrued Expenses	797,813	390	798,203
Salaries Payable	865,549	2,317	867,866
Deferred Revenue	118,093	0	118,093
Total Liabilities	\$3,303,528	\$5,928	\$3,309,456
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	0	208	208
Prepaid Expenses	79,716	1,770	81,486
Designated	256,620	0	256,620
Unreserved:			
Undesignated, Reported In:			
General Fund	4,543,737	0	4,543,737
School Service Funds	0	152,501	152,501
Total Fund Balances	\$4,880,073	\$154,479	\$5,034,552
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$8,183,601</u>	<u>\$160,407</u>	<u>\$8,344,008</u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total Governmental Fund Balances:			\$5,034,552
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$9,274,044 and the accumulated depreciation is \$6,777,885			2,496,159
Accrued Interest on Long-Term Debt			0
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:			
Bonds Payable		\$358,285	
Compensated Absences Payable		1,026,506	
Total Long-Term Liabilities			<u>(1,384,791)</u>
<u>TOTAL NET ASSETS -</u>			
<u>GOVERNMENTAL ACTIVITIES</u>			<u>\$6,145,920</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	Other	Total
	Fund	Governmental	Governmental
		Funds	Funds
<u>REVENUES</u>			
Local Sources	\$1,956,215	\$356,186	\$2,312,401
State Sources	23,466,627	46,663	23,513,290
Federal Sources	1,795,310	483,393	2,278,703
Total Revenues	\$27,218,152	\$886,242	\$28,104,394
<u>EXPENDITURES</u>			
Current:			
Instruction	16,763,441	0	16,763,441
Student Services	1,657,702	0	1,657,702
Instructional Support	1,150,743	0	1,150,743
General Administration	483,140	0	483,140
School Administration	2,155,070	0	2,155,070
Business Administration	379,444	0	379,444
Operation & Maintenance of Plant	2,799,260	0	2,799,260
Transportation	980,681	0	980,681
Support Services - Other	435,757	0	435,757
Community Services	25,507	0	25,507
Special Revenue	0	1,277,527	1,277,527
Total Expenditures	\$26,830,745	\$1,277,527	\$28,108,272
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$387,407	(\$391,285)	(\$3,878)
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from (to) Other Funds	(360,598)	360,598	0
Other Transfers	364,781	0	364,781
Total Other Financing Sources (Uses)	\$4,183	\$360,598	\$364,781
Net Change in Fund Balance	\$391,590	(\$30,687)	\$360,903
<u>FUND BALANCE - BEGINNING</u>	4,488,483	185,166	4,673,649
<u>FUND BALANCE - ENDING</u>	\$4,880,073	\$154,479	\$5,034,552

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Total net change in fund balances - governmental funds	\$360,903
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(99,659)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	0
---	---

Change in accrued interest on long-term liabilities	0
---	---

Decrease in accrued compensated absences	<u>85,929</u>
--	---------------

<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>\$347,173</u></u>
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MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

		Trust & Agency
<u>ASSETS</u>		
Cash and Cash Equivalents		<u>\$219,975</u>
<u>TOTAL ASSETS</u>		<u>\$219,975</u>
<u>LIABILITIES</u>		
Due to Student Groups		<u>\$219,975</u>
<u>TOTAL LIABILITIES</u>		<u>\$219,975</u>

See accompanying notes to the basic financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mt. Morris Consolidated Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains three school service funds: Food Service, Athletic and Non-Educational Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$10,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS (Continued)

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N) BUDGETARY DATA (Continued)

- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Undeposited Cash – At June 30, 2004, the School District had \$8,750 of petty cash on hand which is included as part of "cash and cash equivalents."

Deposits - The Board of Education authorized the following financial institutions for the deposit of the District's funds for the year ended June 30, 2004: Citizens Commercial & Savings Bank and First of America Bank. The Board also authorized the business office to invest funds with financial institutions that gave the maximum interest rate of return upon receipt of quotes.

The District's deposits are in accordance with statutory authority.

At June 30, 2004, the carrying amount of the School District's deposits was \$3,857,275 and the bank balance was \$4,680,509. \$179,789 of the bank balance was covered by federal depository insurance and \$4,500,720 was uninsured and uncollateralized.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

4) DEPOSITS AND INVESTMENTS (Continued)

Investments - The School District's investments are required to be categorized to give an indication of the level of risk assumed by the District at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent but not in the School District's name.

The District had no investments at June 30, 2004.

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 4,245,839
Federal Grants	186,150
Other Grant Programs & Fees	174,990
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 4,606,979</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the Employment Commission for all benefits charged against the District for the year. As of June 30, 2004, the School District had estimated claims of \$31,180 in conjunction with the program.

8) FUND BALANCE DESIGNATIONS

The District's Board of Education has designated \$256,620 of the District's General Fund fund balance for the following areas:

GenNet Expansion	\$ 102,236
Textbook Purchases	93,384
Replacement of HS Exterior Doors	11,000
Early Retirement Incentive Expense	50,000
<u>TOTAL FUND BALANCE DESIGNATIONS</u>	<u>\$ 256,620</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2004</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$7,209,434	\$0	\$0	\$7,209,434
Land Improvements	376,439	0	0	376,439
Equipment and Furniture	474,286	75,834	0	550,120
Vehicles	<u>1,133,255</u>	<u>57,597</u>	<u>52,801</u>	<u>1,138,051</u>
Totals at Historical Cost	\$9,193,414	\$133,431	\$52,801	\$9,274,044
Less: Accumulated Depreciation				
Buildings and Improvements	(5,328,618)	(110,078)	0	(5,438,696)
Land Improvements	(277,467)	(9,148)	0	(286,615)
Equipment and Furniture	(410,477)	(5,103)	0	(415,580)
Vehicles	<u>(581,034)</u>	<u>(108,761)</u>	<u>(52,801)</u>	<u>(636,994)</u>
Total Accumulated Depreciation	<u>(\$6,597,596)</u>	<u>(\$233,090)</u>	<u>(\$52,801)</u>	<u>(\$6,777,885)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$2,595,818</u>	<u>(\$99,659)</u>	<u>\$0</u>	<u>\$2,496,159</u>

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Instruction	\$ 3,037
Support Services	108,761
Food Service	0
Athletics	11,214
Unallocated	<u>110,078</u>
<u>TOTAL DEPRECIATION EXPENSE</u>	<u>\$ 233,090</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, property and casualty, general liability, and boiler insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2004 were \$143,319 and the School District received a dividend refund of \$0.

11) SHORT-TERM DEBT

The District borrowed \$1,500,000 at 1.31% interest per annum on September 12, 2003, from the State Bank on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The balance including interest as of June 30, 2004 was \$1,518,613. The note matures August 23, 2004.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

12) LONG-TERM LIABILITIES

A) Durant Resolution Package Bonds

Mt. Morris Consolidated Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$560,813 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2004 was \$358,285. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

B) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2004 are as follows:

	BONDS PAYABLE	INTEREST	TOTAL
June 30, 2005	\$0	\$0	\$0
June 30, 2006	27,145	12,237	39,382
June 30, 2007	28,431	10,944	39,375
June 30, 2008	131,077	54,768	185,845
June 30, 2009	31,211	8,172	39,383
June 30, 2010-2013	140,421	17,103	157,524
<u>TOTAL</u>	<u>\$358,285</u>	<u>\$103,224</u>	<u>\$461,509</u>

The payment dates of sick and terminal leave days payable is undeterminable. The payment dates of sick days payable is undeterminable. The interest expenditures on long-term obligations for the year were \$0.

C) Changes in General Long-Term Debt

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2004.

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2003	AMOUNT DUE IN ONE YEAR
<u>Governmental Activities:</u>					
Durant Bonds	\$358,285	\$0	\$0	\$358,285	\$0
Sick & Terminal Leave Pay	1,112,435	0	85,929	1,026,506	0
<u>Total Governmental Activities</u>	<u>\$1,470,720</u>	<u>\$0</u>	<u>\$85,929</u>	<u>\$1,384,791</u>	<u>\$0</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004, consisted of the following:

TRANSFERS TO	TRANSFERS FROM	GENERAL
		FUND
	Athletics Fund	\$351,698
	Non-Educational Fund	8,900
	<u>TOTAL</u>	<u>\$360,598</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2004, 2003 and 2002 were \$2,185,469, \$2,043,686 and \$1,828,936, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principally of which are the Special Education Cluster grants. These programs are subject to program compliance audits. The audit of these programs for and including the year ended June 30, 2004, have been conducted and have been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

17) SUBSEQUENT EVENT

The District has approved borrowing \$1,400,000 at a interest rate of 1.875% from Citizens Bank to meet cash flow needs for the 2004-2005 fiscal year. The bonds will be issued September 24, 2004 with a maturity date of August 19, 2005.

REQUIRED
SUPPLEMENTARY
INFORMATION

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Local Sources	\$1,665,516	\$1,985,385	\$1,956,215	(\$29,170)
State Sources	22,249,444	23,542,867	23,466,627	(76,240)
Federal Sources	1,812,693	1,939,844	1,795,310	(144,534)
Total Revenues	<u>\$25,727,653</u>	<u>\$27,468,096</u>	<u>\$27,218,152</u>	<u>(\$249,944)</u>
<u>EXPENDITURES</u>				
Current:				
Instruction	15,882,426	17,038,010	16,763,441	274,569
Student Services	1,768,457	1,750,774	1,657,702	93,072
Instructional Support	1,241,495	1,260,723	1,150,743	109,980
General Administration	699,536	502,496	483,140	19,356
School Administration	2,033,419	2,210,591	2,155,070	55,521
Business Administration	482,869	379,436	379,444	(8)
Operation & Maintenance of Plant	2,535,843	2,807,919	2,799,260	8,659
Transportation	1,014,898	1,009,973	980,681	29,292
Support Services - Other	351,218	441,710	435,757	5,953
Community Services	386,694	247,786	25,507	222,279
Total Expenditures	<u>\$26,396,855</u>	<u>\$27,649,418</u>	<u>\$26,830,745</u>	<u>\$818,673</u>
Excess of Revenues Over Expenditures	<u>(\$669,202)</u>	<u>(\$181,322)</u>	<u>\$387,407</u>	<u>\$568,729</u>
<u>OTHER FINANCING SOURCES (USES)</u>	<u>536,906</u>	<u>187,942</u>	<u>4,183</u>	<u>(183,759)</u>
Net Change in Fund Balance	<u>(\$132,296)</u>	<u>\$6,620</u>	<u>\$391,590</u>	<u>\$384,970</u>
<u>FUND BALANCE - BEGINNING</u>			<u>4,488,483</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$4,880,073</u>	

OTHER SUPPLEMENTAL
INFORMATION

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	FOOD SERVICES	ATHLETIC ACTIVITIES	NON- EDUCATIONAL ACTIVITIES	TOTALS
<u>ASSETS</u>				
Cash and Cash Equivalents	\$114,986	\$36,858	\$91	\$151,935
Accounts Receivable	0	0	561	561
Due From Other Governmental Units	5,933	0	0	5,933
Inventory	208	0	0	208
Prepaid Expenses	552	1,218	0	1,770
<u>TOTAL ASSETS</u>	<u>\$121,679</u>	<u>\$38,076</u>	<u>\$652</u>	<u>\$160,407</u>
<u>LIABILITIES</u>				
Accounts Payable	\$0	\$3,221	\$0	\$3,221
Accrued Expenses	191	191	8	390
Salaries Payable	927	927	463	2,317
Total Liabilities	\$1,118	\$4,339	\$471	\$5,928
<u>FUND EQUITY</u>				
Fund Balance - Reserved for Inventory	208	0	0	208
Fund Balance - Reserved for Prepaid Expense	552	1,218	0	1,770
Fund Balance - Unreserved and Undesignated	119,801	32,519	181	152,501
Total Fund Equity	\$120,561	\$33,737	\$181	\$154,479
<u>TOTAL LIABILITIES AND FUND EQUITY</u>	<u>\$121,679</u>	<u>\$38,076</u>	<u>\$652</u>	<u>\$160,407</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

	FOOD SERVICES	ATHLETIC ACTIVITIES	NON- EDUCATIONAL ACTIVITIES	TOTALS
<u>REVENUES</u>				
<u>Local Sources</u>				
Cafeteria Sales	\$304,848	\$0	\$0	\$304,848
Athletic Activities	0	42,163	0	42,163
Other Local Revenues	0	0	9,175	9,175
Total Local Sources	\$304,848	\$42,163	\$9,175	\$356,186
<u>State Sources</u>				
State Reimbursements	46,663	0	0	46,663
<u>Federal Sources</u>				
Federal Reimbursements	483,393	0	0	483,393
Total Revenues	\$834,904	\$42,163	\$9,175	\$886,242
<u>OTHER FINANCING SOURCES</u>				
Transfers from General Fund	0	351,698	8,900	360,598
Total Revenues and Other Financing Sources	\$834,904	\$393,861	\$18,075	\$1,246,840
<u>EXPENDITURES</u>				
Salaries - Professional	0	43,812	0	43,812
Salaries - Non-Professional	266,600	179,965	5,386	451,951
Insurances	68,522	13,765	0	82,287
Fica, Retirement, Etc.	54,625	43,791	308	98,724
Other Benefits	0	0	0	0
Purchased Services	19,255	28,731	4,197	52,183
Supplies and Materials	436,262	22,660	1,905	460,827
Capital Outlay	14,438	325	7,224	21,987
Other	6,023	59,521	212	65,756
Total Expenditures	\$865,725	\$392,570	\$19,232	\$1,277,527
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>(\$30,821)</u>	<u>\$1,291</u>	<u>(\$1,157)</u>	<u>(\$30,687)</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$151,382</u>	<u>\$32,446</u>	<u>\$1,338</u>	<u>\$185,166</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$120,561</u>	<u>\$33,737</u>	<u>\$181</u>	<u>\$154,479</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES FROM

Local Sources

Current Taxes	\$1,548,918
Earnings on Investments and Deposits	20,518
Tuition and Adult Education	35,771
Medicaid School Based Services	32,870
GVRC County Reimbursement	115,444
Other Local Revenues	202,694
Total Revenues from Local Sources	<u>\$1,956,215</u>

State Sources

State Aid - Membership - Sec. 20	20,922,976
Court Placed Children	108,330
Other State Grants from ISD	76,219
Michigan School Readiness	475,200
Special Ed Headlee	843,650
Vocational Education Added Cost - Sec. 61a.1	78,255
Durant	56,081
Driver Education	16,006
At-Risk Pupils - Sec. 31A	786,159
Gifted and Talented - Sec. 57.3	2,662
Adult Education - Sec. 107.1	101,089
Total Revenues from State Sources	<u>\$23,466,627</u>

Federal Sources

IDEA Flowthrough	671,490
Transition Services	1,801
Preschool Incentive	44,205
Title I	550,104
Comprehensive School Reform	83,482
Title V	20,689
Technology Literacy Challenge	14,518
Medicaid	36,627
Vocational Education	23,550
Drug Free Learning	1,200
Drug Free Schools	3,000
Emergency Response	5,371
Pep - CM White Physical Fitness - GISD	4,000
Indian Education	120,224
Improving Teacher Quality	196,521
Bridges	16,828
Arbor Day Mini Grant	200
WIA Year Round Youth Services	1,500
Total Revenues from Federal Sources	<u>\$1,795,310</u>
Total Revenues	<u>\$27,218,152</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2004

OTHER FINANCING SOURCES

County Special Education Tax	\$195,255
House Project Bill Backs	38,910
Sale of Fixed Assets	300,592
Other	40,893
Total Other Financing Sources	<u>\$575,650</u>

TOTAL REVENUES AND OTHER FINANCING
SOURCES\$27,793,802

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTIONBASIC PROGRAMSCentral Elementary

Salaries - Professional	\$1,562,987
Salaries - Non-Professional	86,037
Insurances	325,290
Fica, Retirement, Etc.	364,173
Purchased Services	29,376
Supplies and Materials	39,349
Capital Outlay	23,420
Other	276
Total Central Elementary	<u>\$2,430,908</u>

Montague Elementary

Salaries - Professional	699,252
Salaries - Non-Professional	20,967
Insurances	149,111
Fica, Retirement, Etc.	166,584
Purchased Services	21,847
Supplies and Materials	21,996
Other	937
Total Montague Elementary	<u>\$1,080,694</u>

Moore Elementary

Salaries - Professional	687,949
Salaries - Non-Professional	22,814
Insurances	160,020
Fica, Retirement, Etc.	146,400
Purchased Services	21,780
Supplies and Materials	26,333
Other	4,584
Total Moore Elementary	<u>\$1,069,880</u>

Pinehurst Elementary

Salaries - Professional	591,175
Salaries - Non-Professional	35,671
Insurances	148,718
Fica, Retirement, Etc.	128,151
Purchased Services	20,959
Supplies and Materials	19,417
Capital Outlay	2,930
Other	565
Total Pinehurst Elementary	<u>\$947,586</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)BASIC PROGRAMS (Continued)Junior High

Salaries - Professional	\$1,112,777
Salaries - Non-Professional	101,267
Insurances	253,601
Fica, Retirement, Etc.	296,104
Purchased Services	37,643
Supplies and Materials	28,974
Capital Outlay	14,341
Other	5,817
Total Junior High	<u>\$1,850,524</u>

High School

Salaries - Professional	2,949,371
Salaries - Non-Professional	102,872
Insurances	399,035
Fica, Retirement, Etc.	690,993
Purchased Services	309,045
Supplies and Materials	222,419
Capital Outlay	59,663
Other	8,980
Total High School	<u>\$4,742,378</u>

Preschool

Salaries - Professional	186,584
Salaries - Non-Professional	70,588
Insurances	41,896
Fica, Retirement, Etc.	54,049
Purchased Services	273
Supplies and Materials	24,108
Capital Outlay	4,638
Other	1,605
Total Preschool	<u>\$383,741</u>

Summer School - High School

Salaries - Professional	16,110
Fica, Retirement, Etc.	3,325
Total Summer School - High School	<u>\$19,435</u>

Total Basic Programs

\$12,525,146

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)ADDED NEEDSSPECIAL EDUCATION

Salaries - Professional	\$1,285,889
Salaries - Non-Professional	278,255
Insurances	260,222
Fica, Retirement, Etc.	345,211
Purchased Services	23,400
Supplies and Materials	35,828
Capital Outlay	1,291
Other	1,076
Total Special Education	<u>\$2,231,172</u>

COMPENSATORY EDUCATION

Salaries - Professional	570,449
Salaries - Non-Professional	263,363
Insurances	136,215
Fica, Retirement, Etc.	171,554
Purchased Services	4,477
Supplies and Materials	90,791
Capital Outlay	102,604
Other	8,316
Total Compensatory Education	<u>\$1,347,769</u>

VOCATIONAL EDUCATION

Salaries - Professional	383,781
Salaries - Non-Professional	185
Insurances	55,685
Fica, Retirement, Etc.	78,907
Purchased Services	350
Supplies and Materials	10,271
Capital Outlay	54,146
Other	923
Total Vocational Education	<u>\$584,248</u>

Total Added Needs

\$4,163,189

ADULT EDUCATION

Salaries - Professional	60,302
Fica, Retirement, Etc.	12,442
Supplies and Materials	2,362
Total Adult/Continuing Education	<u>\$75,106</u>

Total Instruction

\$16,763,441

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN

GENERAL FUNDSCHEDULE OF EXPENDITURES AND OTHER FINANCING USESFOR THE YEAR ENDED JUNE 30, 2004SUPPORT SERVICESSTUDENT SERVICES

Salaries - Professional	\$799,629
Salaries - Non-Professional	266,455
Insurances	173,056
Fica, Retirement, Etc.	219,462
Purchased Services	119,458
Supplies and Materials	52,986
Capital Outlay	25,487
Other	1,169
Total Student Services	<u>\$1,657,702</u>

INSTRUCTIONAL STAFF

Salaries - Professional	479,041
Salaries - Non-Professional	171,090
Insurances	104,048
Fica, Retirement, Etc.	133,447
Other Benefits	1,600
Purchased Services	162,013
Supplies and Materials	61,943
Capital Outlay	6,012
Other	31,549
Total Instructional Staff	<u>\$1,150,743</u>

GENERAL ADMINISTRATIONBoard of Education

Salaries - Professional	4,500
Purchased Services	23,856
Supplies and Materials	528
Other	190
Total Board of Education	<u>\$29,074</u>

Executive Administration

Salaries - Professional	119,370
Salaries - Non-Professional	125,341
Insurances	37,010
Fica, Retirement, Etc.	48,422
Other Benefits	6,000
Purchased Services	79,001
Supplies and Materials	19,915
Capital Outlay	5,250
Other	13,757
Total Executive Administration	<u>\$454,066</u>

Total General Administration

\$483,140

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN

GENERAL FUND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES

FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)SCHOOL ADMINISTRATION

Salaries - Professional	\$1,049,035
Salaries - Non-Professional	357,502
Insurances	318,661
Fica, Retirement, Etc.	288,199
Other Benefits	7,500
Purchased Services	31,286
Supplies and Materials	78,922
Capital Outlay	16,962
Other	7,003
Total School Administration	<u>\$2,155,070</u>

BUSINESS OFFICE

Salaries - Professional	101,586
Salaries - Non-Professional	100,734
Insurances	50,476
Fica, Retirement, Etc.	40,887
Other Benefits	2,000
Purchased Services	43,292
Capital Outlay	9,911
Other	30,558
Total Business Office	<u>\$379,444</u>

OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	39,386
Salaries - Non-Professional	1,034,208
Insurances	346,601
Fica, Retirement, Etc.	322,898
Other Benefits	3,000
Purchased Services	370,028
Supplies and Materials	486,857
Capital Outlay	193,560
Other	2,722
Total Operation and Maintenance of Plant	<u>\$2,799,260</u>

TRANSPORTATION

Salaries - Professional	30,941
Salaries - Non-Professional	489,637
Insurances	42,949
Fica, Retirement, Etc.	106,810
Purchased Services	109,449
Supplies and Materials	136,892
Capital Outlay	62,906
Other	1,097
Total Transportation	<u>\$980,681</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)

OTHER SUPPORT SERVICES

Salaries - Professional	\$140,925
Salaries - Non-Professional	83,864
Insurances	26,164
Fica, Retirement, Etc.	45,923
Other Benefits	3,500
Purchased Services	80,395
Supplies and Materials	38,875
Capital Outlay	13,063
Other	3,048
Total Other Support Services	<u>\$435,757</u>

<u>Total Support Services</u>	\$10,041,797
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COMMUNITY SERVICES

Salaries - Non-Professional	19,288
Fica, Retirement, Etc.	3,981
Purchased Services	160
Supplies and Materials	2,078
Total Community Services	<u>\$25,507</u>

<u>Total Expenditures</u>	\$26,830,745
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OTHER FINANCING USES

Land Purchase	56,176
Asphalt Project	154,693
Transfers to School Service Funds	360,598
Total Other Financing Uses	<u>\$571,467</u>

TOTAL EXPENDITURES AND OTHER FINANCING USES

<u>\$27,402,212</u>

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
Revolving Fund	\$200	\$1,752	\$676	\$1,276
Alternative Education	1,350	595	900	1,045
Education Endures Scholarship	1,298	0	629	669
High School Band	1,911	1,012	2,357	566
High School Choral	3,975	6,545	10,001	519
High School Class of 2003	4,180	0	24	4,156
High School Class of 2004	1,173	8,634	7,555	2,252
High School Class of 2005	892	11,221	11,352	761
High School Class of 2006	1,063	1,252	1,550	765
High School Class of 2007	0	878	71	807
High School Coaches Fund	9,438	5,505	7,277	7,666
High School DECA	392	3,854	4,239	7
High School Drama	1,012	0	136	876
High School Ecology	3,630	950	1,814	2,766
High School EMI	335	0	0	335
High School French	71	0	0	71
High School Handbook	4	115	0	119
High School Miscellaneous	22,959	29,437	11,504	40,892
High School Morale	147	0	0	147
High School Nat. Honor Soc.	211	0	126	85
High School Parking	169	2,725	2,419	475
High School Photography	1,311	0	0	1,311
High School Pool & Lock	1,956	0	1,800	156
High School Project Outreach	2,045	0	0	2,045
High School Racing	874	15	338	551
High School S.A.D.D.	132	1,997	1,752	377
High School Senior Celebration	1,594	6,774	6,192	2,176
High School Shop	137	861	17	981
High School Spanish Club	131	0	0	131
High School Student Council	4,479	3,334	2,181	5,632
High School Student News	911	34,160	34,302	769
High School Technology	4,653	5,578	4,401	5,830
High School Tennis	3	250	0	253
High School Wood/Metal	136	76	0	212
High School Yearbook 2002	77	75	34	118
High School Yearbook 2003	0	8,582	7,200	1,382
Skip Program	144	862	819	187
Sports Baseball	1,250	1,426	1,968	708
Sports Basketball	220	400	620	0
Sports Cheerleading	584	14,508	14,483	609
Sports Football	496	2,825	2,268	1,053
Sports Golf	1,096	0	753	343
Subtotal	\$76,639	\$156,198	\$141,758	\$91,079

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN

TRUST AND AGENCY FUND

SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS

FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
Sports Hockey	\$474	\$233	\$707	\$0
Sports Misc	8,788	10,246	7,254	11,780
Sports Soccer	414	1,735	2,064	85
Sports Stasik	118	0	118	0
Sports Swim	384	125	0	509
Sports Tennis	267	616	562	321
Sports Volleyball	1,003	6,293	5,876	1,420
Junior High Band	2,662	3,012	4,614	1,060
Junior High Cedarpoint	0	10,580	10,580	0
Junior High Choir	2,622	4,288	2,613	4,297
Junior High Library	0	1,661	1,633	28
Junior High Misc	31,115	25,322	31,961	24,476
Junior High Nat. Honor	383	2,714	2,265	832
Junior High Yearbook	0	4,151	4,151	0
Central Band	903	609	695	817
Central Flower Fund	0	132	132	0
Central Library	6,206	6,699	5,278	7,627
Central Misc	27,644	19,800	22,161	25,283
Central Pencil	0	1,258	915	343
Central St. Council	736	400	233	903
Central Teacher Fund	29,755	40,145	33,316	36,584
Montague Elementary	1,327	15,362	14,803	1,886
Moore Elementary	2,977	7,274	8,498	1,753
Pinehurst Elementary	5,605	3,331	5,539	3,397
Pinehurst Pop Fund	1,062	907	0	1,969
Mt. Morris Wrestling	789	0	0	789
M M Little League	95	0	0	95
M M Youth Football	1,818	0	0	1,818
Transportation	977	1,020	1,173	824
TOTALS	\$204,763	\$324,111	\$308,899	\$219,975

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
FOR THE YEAR ENDED JUNE 30, 2004

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$560,813

1998 DURANT RESOLUTION PACKAGE BONDS

	PRINCIPAL REQUIREMENT	INTEREST RATE	INTEREST REQUIREMENT	TOTAL FISCAL YEAR REQUIREMENTS
<u>PAYMENT DATE - MAY 15TH</u>				
2005	\$0	4.761353%	\$0	\$0
2006	27,145	4.761353%	12,237	39,382
2007	28,431	4.761353%	10,944	39,375
2008	131,077	4.761353%	54,768	185,845
2009	31,211	4.761353%	8,172	39,383
2010	32,696	4.761353%	6,686	39,382
2011	34,253	4.761353%	5,129	39,382
2012	35,882	4.761353%	3,498	39,380
2013	37,590	4.761353%	1,790	39,380
<u>TOTAL</u>	<u>\$358,285</u>		<u>\$103,224</u>	<u>\$461,509</u>

MT. MORRIS CONSOLIDATED SCHOOLS

MT. MORRIS, MICHIGAN

FEDERAL AWARDS
SUPPLEMENTAL INFORMATION

FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 18, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education of
Mt. Morris Consolidated Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mt. Morris Consolidated Schools, as of and for the year ended June 30, 2004, which collectively comprise the Mt. Morris Consolidated Schools' basic financial statements and have issued our report thereon dated August 18, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Mt. Morris Consolidated Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Mt. Morris Consolidated Schools, in a separate letter dated August 18, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mt. Morris Consolidated Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Mt. Morris Consolidated Schools, in a separate letter dated August 18, 2004.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

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August 18, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Mt. Morris Consolidated Schools

Compliance

We have audited the compliance of Mt. Morris Consolidated Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Mt. Morris Consolidated Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mt. Morris Consolidated Schools' management. Our responsibility is to express an opinion on Mt. Morris Consolidated Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mt. Morris Consolidated Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mt. Morris Consolidated Schools' compliance with those requirements.

In our opinion, Mt. Morris Consolidated Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Mt. Morris Consolidated Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mt. Morris Consolidated Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Mt. Morris Consolidated Schools

Page 2

August 18, 2004

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lewis & Knopf PC
LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Direct Programs:			
Indian Education - Grants to Local Educational Agencies	84.060A		
Indian Education (03-04)		S060A030755	\$120,224
Indian Education (02-03)		S060A20755	134,258
Total Direct Programs - Indian Education			<u>\$254,482</u>
Passed Through Michigan Department of Education:			
Title I Grants to Local Educational Agencies	84.010		
ESEA Title I (03-04)		041530-0304	597,047
ESEA Title I (02-03)		031530-0203	658,219
Total Title I Grants to Local Educational Agencies			<u>\$1,255,266</u>
Innovative Education Program Strategies	84.298		
Title V (03-04)		040250-0304	20,689
Title V (02-03)		030250-0203	18,706
Total Innovative Program Strategies			<u>\$39,395</u>
Technology Literacy Challenge Grants	84.318		
Technology Literacy Challenge (03-04)		044290-0304	14,518
Comprehensive School Reform Demonstration	84.332		
Comprehensive School Reform Demonstration (03-04)		031870-0304	114,124
School Renovation, Idea & Tech Program	84.352		
Renovation Grants (02-03)		022410-2B	197,000
Improving Teacher Quality	84.367		
Title II A (03-04)		040520-0304	186,070
Title II A (02-03)		030520-0203	187,682
Total Improving Teacher Quality			<u>\$373,752</u>
Total Passed Through Michigan Department of Education			<u>\$1,994,055</u>
Passed Through Genesee Intermediate School District			
Special Education - Grants to States:	84.027		
IDEA Flow Through (03-04)		040450-0304	671,490
IDEA Flow Through (02-03)		030450-0203	572,424
Transition Services (03-04)		040490-TS	1,801
Total Special Education - Grants to States			<u>\$1,245,715</u>
Vocational Education - Basic Grants to States:	84.048		
Perkins Secondary Regional (03-04)		043520-401215	23,550
Perkins Secondary Regional (02-03)		033520-9215	21,057
Total Vocational Education - Basic Grants to States			<u>\$44,607</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$0	\$0	\$120,224	\$0	\$112,015	\$8,209
46,090	134,258	0	0	46,090	0
\$46,090	\$134,258	\$120,224	\$0	\$158,105	\$8,209
0	0	550,104	0	534,976	15,128
31,493	658,219	0	0	31,493	0
\$31,493	\$658,219	\$550,104	\$0	\$566,469	\$15,128
0	0	20,689	0	19,789	900
2,337	18,706	0	0	2,337	0
\$2,337	\$18,706	\$20,689	\$0	\$22,126	\$900
0	0	14,518	0	13,744	774
0	0	83,482	0	62,202	21,280
96,743	197,000	0	0	96,743	0
0	0	186,070	0	185,718	352
4,540	177,231	10,451	0	14,991	0
\$4,540	\$177,231	\$196,521	\$0	\$200,709	\$352
\$135,113	\$1,051,156	\$865,314	\$0	\$961,993	\$38,434
0	0	671,490	0	558,095	113,395
202,001	572,424	0	0	202,001	0
0	0	1,801	0	1,801	0
\$202,001	\$572,424	\$673,291	\$0	\$761,897	\$113,395
0	0	23,550	0	0	23,550
21,057	21,057	0	0	21,057	0
\$21,057	\$21,057	\$23,550	\$0	\$21,057	\$23,550

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u> (Continued)			
Passed Through Genesee Intermediate School District (Continued)			
Special Education - Preschool Grants:	84.173		
IDEA Preschool Incentive (03-04)		040460-0304	\$31,747
IDEA Preschool Incentive (02-03)		030460-0203	48,160
IDEA Preschool Incentive (01-02)		020460-0203	12,131
Total Special Education - Preschool Grants			<u>\$92,038</u>
Safe & Drug Free Learning	84.184L		
Safe & Drug Free Learning (03-04)		S184L020281-3	1,200
Safe and Drug-Free Schools and Communities - State Grants	84.186		
Drug-Free Schools (03-04)		042860-0304	3,000
PEP - C.M. White Physical Fitness	84.215F	Q215F031137	4,000
Emergency Response Plans	87.184E	Q184E030509	5,371
Total Passed Through Genesee Intermediate School District			<u>\$1,395,931</u>
<u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			\$3,644,468
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	16,036
Bonus Commodities		N/A	5,949
Total Commodities			<u>\$21,985</u>
National School Breakfast Program	10.553	N/A	86,239
National School Lunch Program	10.555	N/A	366,483
National School Special Milk Program	10.556	N/A	8,686
Passed Through Michigan Department of Natural Resources			
Arbor Day Mini-Grant	10.664		
Arbor Day Mini-Grant (03-04)		04-13	200
Arbor Day Mini-Grant (02-03)		AD 02-34	400
Total Passed Through Michigan Department of Natural Resources			<u>\$600</u>
<u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			\$483,993

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$0	\$0	\$31,747	\$0	\$29,385	\$2,362
12,371	35,702	12,458	0	24,829	0
6,916	12,131	0	0	6,916	0
<u>\$19,287</u>	<u>\$47,833</u>	<u>\$44,205</u>	<u>\$0</u>	<u>\$61,130</u>	<u>\$2,362</u>
0	0	1,200	0	1,200	0
0	0	3,000	0	3,000	0
0	0	4,000	0	4,000	0
0	0	5,371	0	5,371	0
<u>\$242,345</u>	<u>\$641,314</u>	<u>\$754,617</u>	<u>\$0</u>	<u>\$857,655</u>	<u>\$139,307</u>
\$423,548	\$1,826,728	\$1,740,155	\$0	\$1,977,753	\$185,950
0	0	16,036	0	16,036	0
0	0	5,949	0	5,949	0
<u>\$0</u>	<u>\$0</u>	<u>\$21,985</u>	<u>\$0</u>	<u>\$21,985</u>	<u>\$0</u>
(25)	0	86,239	0	86,214	0
(322)	0	366,483	0	366,161	0
0	0	8,686	0	8,686	0
0	0	200	0	0	200
200	400	0	0	200	0
<u>\$200</u>	<u>\$400</u>	<u>\$200</u>	<u>\$0</u>	<u>\$200</u>	<u>\$200</u>
(\$147)	\$400	\$483,593	\$0	\$483,246	\$200

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through United Way of Genesee and Lapeer Counties TANF Bridges to the Future	93.558	N/A	\$17,700
Passed Through Genesee Intermediate School District Medicaid Administrative Outreach	93.778	N/A	<u>36,627</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			\$54,327
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed Through Genesee Intermediate School District WIA Title I Year Round Youth Services	17.259	007-K-03	<u>1,500</u>
<u>TOTAL FEDERAL AWARDS</u>			<u>\$4,184,288</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$0	\$0	\$16,828	\$0	\$16,828	\$0
0	0	36,627	0	36,627	0
\$0	\$0	\$53,455	\$0	\$53,455	\$0
0	0	1,500	0	1,500	0
\$423,401	\$1,827,128	\$2,278,703	\$0	\$2,515,954	\$186,150

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

\$2,278,703

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS PURPOSE

General Fund

\$1,795,310

School Service Fund

483,393

TOTAL

\$2,278,703

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 8 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

MT. MORRIS CONSOLIDATED SCHOOLS - MT. MORRIS, MICHIGAN
RECONCILIATION OF FORM R 7120 " GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Current Payments Per the Grant Section Auditor's Report (Form R 7120)		\$1,451,642
<u>Less:</u> State Funded Grants		
Driver Education	(\$15,066)	
School Breakfast Program State Funds	(13,522)	
Total State Funded Grants		(28,588)
<u>Add:</u> Grants Passed Through the Genesee Intermediate School District:		
Special Education - Grants to States (CFDA 84.027)	\$761,897	
Vocational Education (CFDA 84.048)	21,057	
Special Education - Preschool Grants (CFDA 84.173)	61,130	
Safe and Drug Free Learning (CFDA 84.184L)	1,200	
Safe and Drug-Free Schools (CFDA 84.186)	3,000	
PEP - CM White Physical Fitness (CFDA 84.251F)	4,000	
Emergency Response Plans (CFDA 87.184E)	5,371	
Medicaid - Administrative Outreach (CFDA 93.778)	36,627	
Total Grants Passed Through the Genesee Intermediate School District		894,282
Passed Through Michigan Department of Natural Resources		
Arbor Day Mini-Grant (CFDA 10.664)		200
Passed Through United Way of Genesee and Lapeer Counties		
TANF (CFDA 93.558)		16,828
Passed Through Genesee Intermediate School District		
WIA Title I (CFDA 17.259)		1,500
Direct Federal Aid - Indian Education (CFDA 84.060A)		158,105
Entitlement and Bonus Commodities (CFDA 10.550)		21,985
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF</u> <u>EXPENDITURES OF FEDERAL AWARDS</u>		<u>\$2,515,954</u>

MT. MORRIS CONSOLIDATED SCHOOLS- MT. MORRIS, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)
84.027/84.173

Name of Federal Program or Cluster
Special Education Cluster

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Qualified as low-risk auditee?

☒ Yes ☐ No

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings or questioned costs



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 18, 2004

To the Board of Education of
Mt. Morris Consolidated Schools

In planning and performing our audit of the general purpose financial statements of Mt. Morris Consolidated Schools for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Mt. Morris Consolidated Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

The following items that are an immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2004, Mt. Morris Consolidated Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Mt. Morris Consolidated Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lewis & Knopf P.C.
LEWIS & KNOPF, P.C.

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